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Financing Metro — Additional Sources of Revenue

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In this bulletin the Bureau examines certain additional means by which Metro's municipal services might be financed, other than by further substantial increases in the property tax. The two major alternatives are additional municipal revenue sources and an increase in provincial responsibility for certain services.

After a summary of increasing expenditures and property taxes in Metro since 1954, and a brief survey of inter-municipal fiscal disparities and attempts at equalization, five possible sources of additional municipal revenue are discussed. These sources are: the removal of several real property tax exemptions; the payroll tax; the retail sales tax; the motor vehicle user charge; and the sewer service charge. The consideration of further provincial financial and/or administrative responsibility for traditionally municipal services follows. Finally, these two major alternatives are related in the context of the provincial-municipal fiscal system, with particular reference to the aforementioned inter-municipal fiscal disparities and fiscal equity.

EXPENDITURE AND REVENUE PATTERNS

Property taxes have increased every year since 1954 in almost all Metro municipalities. Since 1963, these annual increments have been substantial. In the two year period 1963-5, the increases reached 8.75 mills in Toronto and 9.67 mills in North York. York and East York experienced increases of 8.55 and 9.60 mills respectively. A survey of increasing mill rates and actual taxes levied on a home assessed at $5,000 is provided in Tables I and II below.

The Tables also show considerable disparities in the tax burden among the Metro municipalities. The 1965 tax levy on a property assessed at $5,000 in the City of Toronto is $370; this is $134, or 44 per cent, more than the tax levy on a similar property in the Village of Swansea. Such disparities may reflect any or all of: differences in standards (quantity and/or quality) of services provided; different service needs; and varying fiscal capacities. For example, in 1963, Forest Hill spent $589 per elementary school pupil, while Scarborough spent $378 for the same purpose. Although there are factors affecting costs over which the school boards have little control and such costs vary from school to school in the same municipality, a difference of the order of $210 in average cost per pupil per annum indicates a difference in the range and standards of educational services provided in the area. With a 1964 assessment per capita of $3,482, due in large part to the high average value of its residences, Forest Hill's fiscal capacity is second highest in Metro. In Scarborough, a much lower residential assessment per capita is combined with a relatively low commercial-industrial to residential assessment ratio to yield an assesment per capita of only $1,969. The two municipalities do not have the same capacity to finance the services required of them. For example, even assuming identical student to population ratios in the two municipalities, Scarborough would require a mill rate 60 per cent greater than that of Forest Hill, to provide the same expenditure per pupil. Finally, this disparity in assessment per capita is exacerbated by the unusually large number of children of elementary school age residing in Scarborough. This concentration of pupils is reflected in an assessment per public elementary pupil of only $9,700, compared with $40,600 in Forest Hill.

TABLE I

METRO MUNICIPALITIES

MILL RATES — RESIDENTIAL PUBLIC SCHOOL SUPPORTERS

Municipality	1954	1959	1961	1963	1965
City of Toronto	43.50	56.00	60.00	65.20	73.95
East York	38.50	52.80	55.98	58.00	67.40
Etobicoke	33.80	46.00	49.40	52.70	58.66
Forest Hill	37.80	42.42	51.00	52.90	60.80
Leaside	32.00	36.95	40.30	45.85	52.30
Long Branch	36.00	50.00	51.50	55.60	64.20
Mimico	37.00	43.50	48.50	54.00	60.00
New Toronto	37.00	43.04	46.48	51.16	60.80
North York	36.90	49.96	54.68	55.64	65.31
Scarborough	43.83	56.10	59.99	63.90	71.81
Swansea	34.77	42.43	47.52	48.48	57.19
Weston	40.00	50.00	54.50	56.41	62.70
York	36.54	49.97	56.70	59.60	68.15

TABLE II

PROPERTY TAX PAYABLE BY RESIDENTIAL PUBLIC SCHOOL SUPPORTERS

(DWELLING ASSESSED AT $5,000)

Municipality	1954	1959	1961	1963	1965
City of Toronto	$218	$280	$300	$326	$370
East York	193	264	280	290	337
Etobicoke	169	230	247	264	293
Forest Hill	189	237	255	265	304
Leaside	160	185	202	229	262
Long Branch	180	250	258	278	321
Mimico	185	218	243	270	300
New Toronto	185	215	232	256	304
North York	185	250	273	278	327
Scarborough	219	280	300	320	359
Swansea	174	213	238	242	236
Weston	200	250	273	282	314
York	183	250	284	298	341

The consistent increase in mill rates is due to ever increasing expenditures in the Metro area. Table III shows the extent and functonal distribution of total expenditures in Metro from 1954 to 1963. In 1963, education accounted for nearly 40 per cent of total expenditure, and the debt charge (largely for public works and sanitation and waste removal purposes), another 15½ per cent. These two categories have also experienced the largest rates of increase since 1954.

Nearly 90 per cent of this expenditure is devoted to education, roads and sewers, protection to persons and property, and health and welfare. In light of the community consensus regarding social and economic needs and increased expectations due to technological change, such expenditure is difficult to avoid. The municipality's margin as to the services it provides is quite small. Consequently, there is little reason to expect a levelling off or decrease in these spending schedules.

Table IV shows how these expenditures have been financed from 1954 to 1963. The major revenue sources are the property and business taxes, which account for nearly all revenue raised locally, and provincial government grants. The property tax has realized a fairly constant proportion of total municipal revenue in each sample year since 1954; provincial assistance as a percentage of total expenditure in Metro has somewhat increased in the same period. This brief review of revenue and expenditure statistics has revealed two distinct phenomena: the first is the general increase in municipal expenditures and property tax rates; the second is the substantial variation in fiscal capacity among the area municipalities.

TABLE III

METRO AND AREA MUNICIPALITIES CURRENT EXPENDITURES[1]
($ Millions)

	1954	1958	1961	1963	% of Total Expenditure (1963)
Education[2]	51.0	90.3	131.9	157.7	39.8
Debt Charges	18.2	32.6	49.6	61.1	15.4
Protection	20.1	31.8	43.1	48.7	12.3
Public Works	10.1	15.5	18.8	21.4	5.4
Sanitation and Waste Removal	9.7	14.4	18.0	20.3	5.1
General Government	9.7	14.6	16.4	19.0	4.8
Recreational and Community Services	4.8	9.4	14.6	16.8	4.2
Public Welfare	7.8	15.2	18.8	21.0	5.3
Capital Expenditures Out of Revenue	1.0	10.8	11.8	11.4	2.9
Conservation of Health	7.8	8.8	6.7	6.5	1.6
Other	3.8	5.2	7.2	12.7	3.2
Total Expenditures	144.1	248.5	336.9	396.6	100%

1. *The Annual Reports of Municipal Statistics* 1954, '58, '61, '63; The Metropolitan Toronto School Board, *Public Education in Metro Toronto*, 1953-63, Toronto, 1964.
2. The education item is inflated relative to the public works and sewage items to the extent that the education debt charge is included therein. It is excluded from the latter two.

To redress the economic imbalance in Metro, the Goldenberg Report has recommended the replacement of the present thirteen municipalities with four cities, and a uniform mill rate for educaton. If implemented, these proposals will effect significant mill rate adjustments in several existing Metro municipalities. For example, in 1961, a uniform mill rate for education would have reduced the Scarborough education rate from 28.7 to 26.0 mills. In addition to redrawing municipal boundaries to accord with fiscal exigencies and to equalizing the burden of important expenditures, it is theoretically possible, although practically difficult, to reduce fiscal disparities among the area municipalities by sharing the revenues from the business tax and the real property tax on commercially assessed property over the Metro area. However, while all three methods of equalization do alleviate the problem of economic imbalance, they do not, in the long run, touch on the first phenomenon – the consistent increase in property mill rates in nearly all Metro municipalities.

The property tax is a stable, dependable, productive, easily administered and traditional source of municipal revenue. It is, on the other hand, regressive in that the percentage of income paid in property taxes is greater for the low income groups than for the high income groups, and it is only partly benefit-related.

More important, the property tax base does not tend to reflect economic change too closely, particularly because property assessments tend to lag behind changes in market values. Because of this lag, mill rates have

had to be regularly increased. Nevertheless, when talking of the burden of property taxation in Metro, it must be remembered that total property tax and business tax collections in Metro have remained at a constant 13 per cent of personal income from 1959 through 1963, compared with 16 per cent in 1957.[1]

NEW SOURCES OF REVENUE

Whatever the true burden may be, to argue that the property tax is becoming excessively burdensome and that it should not be required to finance increasing shares of such 'general' services as education, is to argue either that additional sources of revenue be made available to municipalities, or that the province assume greater financial responsibility for these services. In exploring the first alternative, this bulletin summarizes the amounts realizable from various municipal revenue sources and the corresponding reductions in City of Toronto mill rates, in Table V (see p. 6). The reductions in mill rates in the other twelve municipalities would be nearly identical; slight disparities would result from different ratios of tax exempt property to total assessed property in the thirteen municipalities. These additional revenue sources are considered possible supplements to, and partial replacements for, the property tax.

Before elaborating briefly upon each of the aforegoing sources, the apparent failure to consider the business tax and the personal property tax as possible additional revenues ought to be justified.

The business tax in Ontario takes the form of a surtax on the real property tax realizable from commercially assessed property. The present classifications are almost completely arbitrary and bear little relationship to ability to pay or to the levels of municipal service provided.[2] Recent writings on the subject recommend either wholesale rationalization of the tax structure or its replacement by an income turnover tax.[3] Whatever form of municipal taxation is levied on the business community, it is not

TABLE IV

METRO AND AREA MUNICIPALITIES – REVENUES[1]
($ Millions)

	1954		1958		1961		1963	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
1. Property and Business Tax	102.6	69.6%	167.4	66.0%	233.5	68.2%	275.7	68.7%
2. Senior Government Grants	22.4	15.2%	47.8	18.8%	66.4	19.4%	77.9	19.4%
3. Debenture Debt Recoverable[2]	7.3	5.0%	14.7	5.8%	18.1	5.3%	19.8	4.9%
4. Other	15.1	10.2%	23.8	9.4%	24.3	7.1%	28.0	7.0%
Total Revenue[3]	147.4	147.4	253.8	253.8	342.2	342.2	401.4	401.4

1. Calculated from *The Annual Reports of Municipal Statistics and Public Education in Metropolitan Toronto* 1953-63, Toronto, 1964.
2. The consolidated Debenture Debt Recoverable item shown is composed largely of debt recoverable by the thirteen area municipalities and Metro from various utilities and other municipal enterprises.
3. A more comprehensive analysis would include utility revenues which are a large part of the municipal revenue structure. For example, in 1960, revenue from rates and fares for the three major utilities – hydro, public transit, and water – yielded more than $125 millions or the equivalent of 59 per cent of all property taxes levied throughout Metro in that year; from E. Hardy, *Meeting the Cost of Elementary and Secondary Schooling Throughout Metro*, Toronto, 1961, p. 39.

desirable that it support a greater proportion of the municipal tax burden than at present. In 1957 the provincial unconditional per capita grant to Metro was made on condition that the annual levy against residential property owners be reduced by an amount equal to the grant. Similarly, from 1961 and 1963, the provincial School Tax Assistance grants were made on condition that the residential mill rates for elementary and secondary (1963) supporters be reduced 10 per cent below commercial rates. In the current year the total rate differential in North York has reached nearly 9 mills. This 'split' mill rate represents an indirect provincial subsidy to the residential property owner.

The personal property tax was not included because, with few exceptions, accurate and equitable assessment of personal property has proven difficult. The exceptions to this are: that part of personal property often included in the statute definitions of real property (machinery equipment and certain permanent fixtures); 'personal property' taxes which are 'fixed' percentages of real property tax levies; and the automobile ad valorem tax to be discussed later. For this reason, although the personal property tax is employed extensively in Nova Scotia and New Brunswick, it is unlikely that any jurisdiction which does not provide for it will do so in the future. For the same reason, Ontario abolished personal property taxation in 1904, and is unlikely to change its position.

REMOVING THE EXEMPTIONS

The first and perhaps most obvious source of additional municipal revenue is to be gained from the removal of the many exemptions from the property tax and the rationalization of the structure of provincial payments-in-lieu of taxes. In the City of Toronto alone, there was $246.8 millions of non-municipally owned tax exempt assessment in 1964.[4] Any tax exemption not fully compensated for by payments-in-lieu is an indirect subsidy from the taxpayers of the community to a particular organization or senior level of government, and results in higher mill rates for those properties which are not exempt.

In 1964, the Province of Ontario made payments in lieu of property taxes for general, but not school purposes, on $34.2 millions of its assessed holdings in the City of Toronto. Payment in lieu of school taxes would realize $1.0 million. Further provincial payments in lieu of full taxes on universities, independent educational institutions and provincial institutions in Toronto would generate an additional $4.76 millions. The Manitoba Royal Commission on Local Government Organization and Finance recently recommended the establishment of payments in lieu of municipal taxes, but not school taxes, on all provincial agencies.

The removal of exemptions for cultural, charitable, recreational service and welfare institutions would yield the City $1.85 millions, while similar treatment of churches and other religious institutions would realize $3.24 millions. In May 1963, the Ontario Select Committee on the Municipal Act and Related Acts recommended that the exemptions for charitable and recreational institutions be made discretionary rather than mandatory. Why the same recommendation was not made for churches and other religious institutions is not quite clear. Taxation of hospitals within the City of Toronto would yield $3.61 millions, while removal of the partially-graded exemption, a certain result of the consolidation of the existing thirteen municipalities into four cities, as suggested in the 'Goldenberg Report', would bring an additional $1.90 millions. None of these exempt categories is singly significant, but added together they would realize $14.7 millions (in the City of Toronto alone), of additional revenue. There appears at present to be a trend in the literature of municipal finance toward narrowing the scope of property tax exemptions.[5]

TABLE V

NEW METRO REVENUE SOURCES

Additional Revenue Source	($ Millions) Amount Realizable	Equivalent Mill Rate Reduction (from 73.95)[1]
1. EXEMPTIONS		
(a) Provincial Payment in Lieu of full Taxes on Crown Lands and Educational Institutions	5.78	3.19
(b) Relaxing all Exemptions (including 1)	14.73	8.15
2. PAYROLL TAX	54.30	14.55
3. MOTOR VEHICLE USER CHARGES		
(a) licence fee	14.85	4.50
(b) ad valorem	16.65	4.68
(c) shared gasoline tax (3c gal.)	10.81	3.20
4. SALES TAX		
(a) general sales tax	59.83	16.60
(b) sales and service tax (includes a)	72.72	20.36
(c) hotel and motel tax (included in b)	1.61	0.75
5. SEWER SERVICE CHARGE	16.58	4.67

1. City of Toronto rate used to exemplify a 'Metro mill rate'. Decreases in other rates would be nearly identical – *except in case 1, where exemptions were computed for the City of Toronto only.*

THE PAYROLL TAX

A second significant revenue source would be provided by a Metro-wide payroll or income tax.[6] Applied at a uniform rate of 1½ per cent, with no exemptions, to the earned income (wages and net profits of unincorporated businesses) of all Philadelphia residents and to the income earned within the corporate limits of that city by non-residents, the payroll tax realized $68.6 millions or 29 per cent of total Philadelphia revenues in 1958. The cost of administration was one million dollars or 1.4 per cent of the tax yield. A similar tax was introduced in Detroit in 1962. In this case, a uniform tax of one per cent, with a uniform exemption of $600 per person, was applied to wages and investment income of all Detroit residents, wages, rental income, and net capital gain income earned in Detroit by non-residents, and corporate income derived from corporate activity in Detroit. The tax yielded between $34 and $35 millions in 1962. Without the $600 basic exemption, the tax would have yielded an estimated additional $14 millions.

The municipal income tax in either of the forms illustrated above is both highly productive and sensitive to economic change. It is so productive that in several Ohio cities it has displaced the property tax as the major source of municipal revenue. Unlike the property tax which is most definitely regressive, the flat rate municipal income tax could be termed 'proportional'. Administrative costs, in the great majority of American experiences, although probably somewhat higher than the costs of administering the property tax, have been less than 2 per cent of the tax yield. The income tax also reaches those people who live outside the jurisdiction of the taxing authority but who make use of its transit, police protection and other facilities while working within it. Finally, it may be noted that, in the experience of the numerous Ohio and Pennsylvania communities which employ the tax, there is no evidence of migration to escape the tax, either on the part of capital or of labour. Reciprocal 'offsetting' agreements among adjoining urban municipalities probably contribute substantially to this happy condition. If there were no exemptions, a municipal tax of 1½ per cent on personal income earned by residents of Metropolitan Toronto would have yielded $54.3 millions in 1963. If the tax were also applied to the personal income of non-residents who work within Metro, this revenue figure would be slightly increased.

MOTOR VEHICLE USER CHARGES

A third potential revenue source is a municipal motor vehicle user charge. A municipal motor vehicle licence fee of $25.00, applied to every passenger and commercial vehicle in Metro, would have yielded $14.9 millions in 1963. A second method, whereby vehicles are assessed and taxed as a portion of real or personal property, would have resulted in $14.7 millions of additional revenue in Metro in 1963. Finally, a Metro gasoline surtax of 3c per gallon on the provincial tax would have generated $10.8 millions of new revenue in 1963.

The licence fee and the gasoline tax are probably best administered through existing provincial facilities and they, therefore, take the form of provincial-municipal shared tax agreements. On the other hand, the ad valorem tax assumes municipal administration as a part of general property tax administration. Of the three, the gasoline tax is in closest accord with the benefit principle, and is probably most responsive to economic change. The ad valorem real property tax method is most consistent with the ability-to-pay criteria. The Cities of St. John and Fredericton successfully apply the ad valorem tax and licence fee, respectively, at this time. No Canadian city levies a gasoline tax, although some four hundred American municipalities in eight states do so.

SALES AND SERVICE TAXES

The fourth source of additional municipal revenue may be divided conveniently into three parts: 1) a general retail sales tax, 2) sales tax extended to services, 3) a hotel-motel tax.

(i) The Retail Sales Tax

This tax takes the form of a municipal surtax of 1-3 per cent on the provincial general sales tax, provincially administered and returned to the municipality on the basis of a composite formula that may resemble the one recommended by the recent Belanger Commission Report in Quebec.[7] The Quebec municipal retail sales tax is uniform throughout the province at the rate of 2 per cent and accounts for one third of the total provincial sales tax of 6 per cent. A municipality's sales tax income would be calculated in the following manner. First, the municipality would receive 16⅔ per cent (50% of the municipal tax) of the 6 per cent sales tax collected within it; second, it would receive its share (proportional to its population) of an amount equivalent to 13⅓ per cent of total sales tax proceeds from the economic region in which it is located; third, it would receive its share (proportional to its population) of an amount equivalent to 3⅓ per cent of the total sales tax proceeds from the entire Province. Assuming that Metro Toronto would be designated an 'economic region', it would receive (applying the Belanger formula) roughly 94 per cent of the sales tax revenues realized within its boundaries. A 3 per cent municipal surtax on the provincial general retail sales tax would, therefore, yield Metro $59.8 millions of additional revenue. Revenues accruing from the municipal sales tax in Quebec have been substantial. Normally, over 30 per cent of general taxation revenue for municipal purposes is derived from this source. In the United States the general sales tax is imposed as a municipal levy (often state collected) in about eighteen hundred local jurisdictions in twelve states, including five of the fifteen largest cities.

Assuming provincial collection and redistribution of this shared tax, to evaluate it is to evaluate the provincial retail sales tax. With exemptions for such items as food including meals, fuel, and children's clothing, it can be made non-regressive, although it probably cannot be made effectively progressive. The burden also varies among individual families on the basis of considerations not acceptable as appropriate measures of tax capacity – for example, the size of the family. Since the tax is related directly to sales volume, it is quick to respond to an improvement in economic conditions reflected in increasing retail sales.

(ii) The Service Tax

On the extension of the retail sales tax to personal and repair services, Professor Due has written:

> *"There is no logic at all to the complete exclusion of services which satisfy consumer wants in the same fashion as commodities."*[8]

Recently it has been argued that the Province of Ontario should extend its retail sales tax to certain services. A corresponding municipal 3 per cent surtax on personal and repair services in Metro would yield $12.9 millions of additional revenue, accounting for a property tax rate contraction of 3.8 mills in the City of Toronto. Taken together, the municipal retail 3 per cent sales and service taxes would realize $72.7 millions of additional revenue and would effect a decrease in the City tax rate of 20.36 mills. The service tax would again take the form of a shared tax, administered through existing municipal facilities and redistributed to the municipalities on the aforementioned basis.

(iii) The Hotel Tax

The hotel and motel tax is an extension of the retail sales tax to a particular service. If levied throughout Metro at the rate of 3 per cent, such a tax would yield approximately $1.6 millions. It is apparently easily administered and it charges the transient for the services and benefits he receives from the community. However, if it is applied singly and not as a part of a more general service tax, its revenue potential is insignificant.

THE SEWER SERVICE CHARGE

A fifth additional municipal revenue source is provided by relieving the property tax of responsibility for financing sewage and waste disposal expenditure, and charging the users of these services in proportion to benefits received. Hydro-electric, water and T.T.C. services are similarly financed at present. To be charge-financed, a service must be readily identifiable with its users and the charge must not be of such magnitude as to deter persons from making use of the service. The sewage item seems to accord with both of these criteria. Including debt charges and capital expenditure from current revenue, $16.6 millions were spent in Metro for sewage and waste disposal purposes in 1963, and financed from the property tax levy, an equivalent of 4.67 mills of the City of Toronto tax rate.

FURTHER PROVINCIAL RESPONSIBILITY

It is perhaps difficult to evaluate effectively any one of the additional sources of revenue proposed above, without placing it within the context of the provincial-municipal system. Municipal spokesmen have argued for some time that the property tax should not be called upon to finance such services as education, health, libraries, and welfare, which, they rightly argue, are not of direct benefit to property.[9] They proceed to argue that such services ought to become a predominantly provincial responsibility. However, to argue that a service is not of direct benefit to property is not to argue that it is of more general than local benefit. Indeed, the opposite may be true. For example, a library in the City of Toronto is certainly of more benefit to the residents of Toronto than to the residents of the Province at large. Therefore, in arguing that a service is not of direct benefit to property and that it ought to become a provincial responsibility, the municipalities assume that they will not be accorded by the Province any of the aforementioned additional sources of revenue. In light of recent trends in Canadian provincial-municipal finance, the local authorities' assumption may be well founded. The Byrne Commission, in New Brunswick; the Michener Commission, in Manitoba; the Touche, Ross, Bailey and Smart Provincial and Municipal Taxation Study in Nova Scotia; and most recently, the Macleod Commission, in Saskatchewan; have all advocated further provincial responsibility for various services of a 'general' nature and denied additional revenue sources to the municipalities.

The province may assume either complete administrative and financial responsibility for a service, or it may leave the municipality to administer it, and provide financial assistance via conditional or unconditional grants. Either policy can approximate a condition of fiscal equity for all individuals in the province. Fiscal equity in a provincial-municipal context could be defined as equal benefits received for equal municipal taxes paid, with a uniform province-wide 'floor' level of services.[10] If the province assumes 100 per cent of the cost of a given service and provides a uniform level of service, fiscal equity, with respect to this service, ought to be achieved by definition. However, if the province assumes less than 100 per cent and finances its share through conditional or unconditional grants, to approximate a condition of fiscal equity these grants must be explicitly related to fiscal need in various municipalities and designed to provide a minimum, or foundation level of services from a uniform municipal property mill rate. Only in this way are fiscal disparities, referred to earlier, completely overcome. Such foundation programmes are employed at present in several Canadian provinces to finance public and secondary school education.

However, a brief survey of the Ontario municipal grant pattern reveals that only the education grant and one library grant are made on an explicit fiscal equity basis. Straight deficiency payments on a per capita basis or varying with the legal classification of the municipality are not in accord with the fiscal equity principle. More sophisticated indices of fiscal need are required, particularly in such important areas as the transportation and road grants.

Of the eighty odd provincial-municipal grants, only one is unconditional. Conditional grants enable the senior government to set standards for 'general' services such as education; to ensure that such standards are maintained; and to induce a local government to provide a new service. In economic terms, a conditional grant system assumes the senior government can allocate resources more efficiently than the municipal body. In political terms, it gives the senior government a significant degree of control over how, where and when the funds are spent.

Finally, although theoretically fiscal equity can be approximated equally well through unconditional and conditional grants, Professor Graham has observed that in Nova Scotia it appears that if municipalities were free to determine the level of general services, such as education, for which they were responsible, there would be considerable variation in the level of such services. On the other hand, a residual unconditional grant, applied on a fiscal equity basis, may be appropriate to assist municipalities in meeting the cost of those 'local' services, the standards of which the municipality ought to be in a superior position to determine. Both the conditional and the unconditional grant violate the maxim that the level of government which finally spends the funds ought to be directly responsible for raising them; the conditional grant at the municipal level, and the unconditional grant at both the municipal and provincial levels.

Like the unconditional grant, the shared tax arrangements described above assume the municipality to be the more efficient allocator of resources, and pay scant attention to the principle of financial responsibility. However, unlike the grant and like a locally imposed tax, they are inconsistent with the principle of fiscal equity, although a sophisticated method of redistribution might alleviate this shortcoming in certain respects. The application of the fiscal equity principle to relations between the province and industrial municipalities may be made less important in the future by the equalization of revenues or expenditures over economic and/or metropolitan regions. However, provincial regional equalization payments would probably have to be made. In any case, shared tax arrangements and the extension of the foundation principle to greater provincial participation in financing 'general' service are probably mutually exclusive—to the extent that the senior government wishes to retain an undiminished tax base for its increased expenditures.

Increased provincial administrative and financial responsibility for key 'general' services points the way to the potential erosion of local fiscal decision-making power. With that erosion, whatever values are inherent in local participation in the political process would seriously dwindle. It is significant and appropriate that even the most hard-pressed of municipalities advocate the province assume 75-80 per cent, and not 100 per cent, of the cost of education. Such a policy would alleviate the tax burden of municipalities to a considerable extent. If, for example, the province had assumed 80 per cent of the cost of education in the City of Toronto in 1963, the City would have shown a surplus of $35 millions even without provincial grants for any other purpose. Conversely, it would have produced a balanced budget with a residential mill rate of 45.6 (c. f. actual 65.2).

In this bulletin the Bureau has examined several sources of revenue which might be made available to Ontario municipalities to allow them to maintain adequate service levels without inordinate increases in their property tax rates. If further substantial mill rate increases are deemed undesirable, and the Province does not see fit to give Metro (and other Ontario municipalities) additional revenue sources, the alternative is further provincial assumption of responsibility for traditionally local services. Whether local government could remain viable under this latter condition is an open question.

Proposals have been made recently in Ontario, New Brunswick and Manitoba, for rationalization of certain services at the regional level, and for various forms of regional governments. The creation of regional governments with substantial fiscal authority could equalize the fiscal burden of the municipalities within the regions to a certain extent. However, in spite of this initial equalization and assuming regional responsibility for certain services, it is probable that in the longer run property taxes would continue to rise at significant rates, unless the regional governments were accorded one or more of the aforementioned revenue sources.

REFERENCES

1. Calculated by the author from Department of Municipal Affairs, *The Annual Reports of Municipal Statistics*, 1957-63; Department of National Revenue, *Taxation Statistics*, 1957-63.
2. For example, Distiller 150%
   Wholesale merchant, insurance, loan companies, banks 75%
   Manufacturer 60%
   Fuel dealer, department store, printer, professional services .. 50%
   City retail merchant, telephone company, restaurant, hotel 25%
   Supervised car park 10%
   The Assessment Act, R.S.O. 1960, Chpt. 23, S. 53, (6).
3. For example, R. M. Clark, for the Canadian Tax Foundation, *The Municipal Business Tax in Canada*, Toronto, 1952; R. M. Clark, Submission to the City of Winnipeg, *Commission on Municipal Taxation*, Winnipeg, 1957; *Second Interim Report of the Select Committee on the Municipal Act and Related Acts*, Toronto, 1963, pp. 57-62; E. Hardy, *Meeting the Cost of Elementary and Secondary Schooling Throughout Metro Toronto*, 1961, p. 41.
4. *Submission of the City of Toronto to the Ontario Committee on Taxation*, Toronto, 1964, p. 14.
5. For example, *Submission of the Municipal Finance Officers' Association of Ontario and the Assessing Officers' Association of Ontario to the Ontario Committee on Taxation;* The Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, Vol. I, pp. 76-87, Washington, 1963.
6. See for example, L. L. Moak, *The Philadelphia Income Tax*, Proceedings of the 51st Annual Conference, National Tax Association 1958, p. 500; A. L. Warren, *The Detroit Income Tax*, Proceedings of the 56th Annual Conference, National Tax Association, 1963, p. 442.
7. The Royal Commission on Taxation, P. Q. *Report on Distribution to Municipalities of Part of Sales Tax Proceeds*, Quebec, 1965.
8. John F. Due for the Canadian Tax Foundation, *Provincial Sales Taxes*, Toronto, 1964, p. 196.
9. For example, the Submissions to the Ontario Committee on Taxation from the City of Toronto and the Municipal Finance Officers' Association of Ontario; J. L. Pickard, *Financial Problems of Municipalities*, The Canadian Chartered Accountant, Vol. 85, #6, p. 420.
10. J. F. Graham, *Fiscal Adjustment and Economic Development*, Toronto, 1963, pp. 171-173.

BUREAU OF MUNICIPAL RESEARCH

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The Bureau has gained wide recognition as an effective proponent of good government through its bulletin *Civic Affairs,* through the publicity given its statements, through its information and advisory services, and through the participation of the staff in the public discussion of municipal issues.

The Bureau is financed entirely by voluntary annual subscriptions from non-governmental sources. Its members include business and professional firms, organizations and individuals.

your inquiries are invited:

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